

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON NDWEDWE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Ndwedwe Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ndwedwe Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to these matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 30 June 2014 in the financial statements of the Ndwedwe Municipality at, and for the year ended, 30 June 2013.

Material Impairment

9. As disclosed in note 4 to the financial statements, the municipality had raised a provision for debt impairment of R7,76 million on consumer debtors as the recoverability of these amounts is doubtful.

Material underspending of the capital budget

10. As disclosed in the statement of comparison of budget information and actual information, the municipality has materially underspent the budget on capital expenditure to the amount of R35,46 million. As a consequence, the municipality has not achieved its planned objective of service delivery and infrastructure development.

Material under spending of the conditional grants and receipts

11. As disclosed in note 11 to the financial statements, the municipality has materially underspent on conditional grants and receipts to the amount of R39,96 million. As a consequence, the municipality has not achieved its planned objective of service delivery and infrastructure development.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary information

13. The supplementary information set out on pages XX to XX did not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objective presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Objective 2: Basic services and infrastructure development on pages x to x
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Additional matters

21. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

22. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

Material adjustments to the annual performance report

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Objective 2: basic services and infrastructure development. As management subsequently corrected the misstatements I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

25. The local community was not afforded the opportunity to comment on the final draft of the integrated development plan (IDP) before adoption, as required by section 42 of the Municipal

Systems Act and municipal planning and performance management regulations 9, 13(1), 13(4)(c) and 15(3).

Annual financial statements

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of trade and other receivables, provisions and commitments were identified by the auditors in the submitted financial statements, which were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

27. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
28. Bid adjudication was not always done by committees which were composed in accordance with supply chain management (SCM) regulation 29(2).
29. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
30. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Human resources management

32. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

34. The accounting officer did not exercise oversight of the financial statements, compliance with the MFMA, SCM regulations and the Municipal Systems Act due to slow response from oversight in assessing whether all staff had the necessary skills and competencies to comply with the approved policies and procedures.

Financial and performance management

35. The chief financial officer did not perform a detailed review of the annual financial statements to ensure that a complete and accurate set of annual financial statements are prepared to comply with the MFMA.

36. The senior managers have not implemented detailed compliance checklists to address all laws and regulations for annual financial statements, performance reporting, SCM and human resource management.

Auditor-General
Pietermaritzburg

28 November 2014



AUDITOR-GENERAL
SOUTH AFRICA

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